

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER)	CASE NO.
ADJUSTMENT FILING OF HARRISON COUNTY)	2022-00354
WATER ASSOCIATION, INC.)	

ORDER

On October 25, 2022, Harrison County Water Association, Inc. (Harrison County Water) applied for approval to adjust its rates pursuant to the purchased water adjustment procedure set forth in KRS 278.012 and 807 KAR 5:068.¹

LEGAL STANDARD

In accordance with KRS 278.012, when a wholesale supplier selling water to a water association increases its rates, the water association has the authority to increase its rate commensurate with the wholesale supplier. The water association must file a copy of the notice from the wholesale supplier showing the increase in the wholesale rate, and a statement of the volume of purchased water used to calculate the rate adjustment. The Commission shall approve the filing by order after the above documents are filed.

DISCUSSION AND FINDINGS

Harrison County Water purchases water from the city of Cynthiana (Cynthiana), Kentucky-American Water Company (Kentucky-American), the city of Millersburg (Millersburg), and Nicholas County Water District (Nicholas District). Cynthiana notified

¹ Harrison County Water tendered an application on October 24, 2022 that was rejected for filing due to certain filing deficiencies. On October 25, 2022, Harrison County Water submitted information to cure the filing deficiencies and the application was deemed filed as of October 25, 2022.

Harrison County Water that its wholesale rate would increase from \$3.15 per 1,000 gallons to \$3.61 per 1,000 gallons, effective November 21, 2022.² Harrison County Water proposes to increase the water rates to its customers effective December 12, 2022, to reflect the increased cost of purchased water from Cynthiana.

Unaccounted-for Water

Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed 15 percent of the total water produced and purchased, excluding water consumed by a utility in its own operations. In its 2021 Annual Report filed with the Commission, Harrison County Water reported a water loss of 22.0300 percent.³ Harrison County Water's application provides updated purchase and sales information for the period of October 2021 through September 2022. Based upon the updated information in the application and the percentage of other water consumed by the utility in its 2021 Annual Report, Harrison County Water's unaccounted-for water loss is 20.2542 percent for the updated period.⁴ Reduction of Harrison County Water's unaccounted-for water loss to 15 percent would result in an approximate \$87,227.19 decrease to purchased water expense.⁵ Potentially,

² TFS 2022-00471 (Ky. PSC Sept. 28, 2022); Cynthiana submitted the tariff on September 28, 2022, and the tariff was accepted for filing by the Commission by letter dated October 27, 2022, with an effective date of November 21, 2022.

³ *Annual Report of Harrison County Water to the Public Service Commission (Annual Report) for the Year Ended December 31, 2021* at 57. Harrison County Water failed to include Water Statistics in its filing of the 2021 Annual Report until October 27, 2022.

⁴ Total Purchases (application PWA Form 1 at 2)	461,797,344
Less Total Sales (application PWA Form 1 at 2)	356,135,832
Less Plant Use (% determined from 2020 Annual Report)	12,128,184
Water Loss – Gallons	93,533,328
Water Loss – Percent	20.2542%

⁵ Water loss above 15% is 0.052542, potential purchased water expense reduction (Total water cost at new wholesale rate of \$1,660,142.22 times water loss above 15%) equals \$87,227.19.

Harrison County Water is paying approximately \$0.2449 per 1,000 gallons sold for expenses associated with unaccounted-for water loss in excess of the 15 percent threshold.⁶ The cost of Harrison County Water's total water loss is \$336,248.53.⁷

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission strongly encourages Harrison County Water to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Harrison County Water to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

Financial Condition and Rates

Based on a review of Commission records, Harrison County Water has not sought a general base rate adjustment since 2015.⁸ Harrison County Water's only rate increases have occurred as a condition for federal financing of a construction project in accordance with KRS 278.023 or as a pass-through rate increase from a supplier in the form of a purchased water adjustment. In accordance with the provisions of KRS 278.023, the Commission's review of such applications is a limited review of a utility's total financial stability and operational viability. As a result, Harrison County Water has avoided comprehensive review by the Commission of Harrison County Water's financial records and operational structure for six years.

⁶ Potential purchased water expense reduction divided by sales (\$87,227.19/ (356,135,832/1,000)) equals \$0.2449 per 1,000 gallons.

⁷ Total water cost at new wholesale rate of \$1,660,142.22 times 20.2542% water loss equals \$336,248.53.

⁸ Case No. 2015-00308, *Alternative Rate Adjustment Filing of Harrison County Water Association* (Ky. PSC Feb. 12, 2016), final Order.

In Case No. 2019-00041, the Commission discussed the problems that can occur when utilities intentionally avoid a review of their financial records by relying solely on financing cases to increase rates.⁹ A key recommendation from that proceeding was that water associations should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.¹⁰

As documented in annual and audit reports filed with the Commission, Harrison County Water lost money in each of the last three years (2019-2021). While cash basis income was positive for the past five years (2017-2021), Harrison County Water did not fully fund depreciation reserves for the past three years (2019-2021). Harrison County Water had water loss that fluctuated from 12.18 percent in 2016 to 22.03 percent in 2021, and a low of 4.19 percent in 2018. Harrison County Water neglected to include Water Statistics in its filing of the 2021 Annual Report until October 27, 2022.

The lack of insight into Harrison County Water's financial records and the recurring underfunding of depreciation reserves leads the Commission to conclude that Harrison County Water should file an application for a general base rate adjustment or an alternative rate adjustment within 30 days after the filing of Harrison County Water's 2023 Annual Report to ensure that its revenue is sufficient to support adequate and reliable service. In the alternative, if Harrison County Water contends that a rate case is not necessary, it should file a formal motion with detailed analysis of its rates and revenues, and a statement of the reasons why a rate case is not necessary within six months of the date of this Order.

⁹ See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

¹⁰ See Case No. 2019-00041, Nov. 22, 2019 final Order.

Purchased Water Adjustment Factor

In its application, Harrison County Water proposed a purchased water adjustment factor of \$0.51 per 1,000 gallons. During the 12 months ended September 30, 2022, Harrison County Water purchased 391,207,140 gallons of water from Cynthiana, 42,424,000 gallons of water from Kentucky-American, 24,096,354 gallons of water from Millersburg, and 4,069,850 gallons of water from Nicholas District, and sold 356,135,832 gallons of water to its customers. The increase in the cost of purchased water from Cynthiana is \$179,955.29, resulting in a purchased water adjustment factor of \$0.51 per 1,000 gallons. Harrison County Water did not propose any rate changes based on changes in the rates of Kentucky-American, Millersburg, or Nicholas District.¹¹

While Harrison County Water correctly calculated its purchase water adjustment, the Commission notes that there is a typographical error in Harrison County Water's application, Exhibit E, Proposed Pass-Through Monthly Water Rate. The 5/8' x 3/4' Meter tier of "Next 1,000 Gallons" reflected that the current rate was \$7.44 per 1,000 gallons and that the new rate would be \$7.91 per 1,000 gallons, but application of the \$0.51 per 1,000 gallons purchase water adjustment would actually bring the rate to \$7.95 per 1,000 gallons.

The purchased water adjustment factor of \$0.51 per 1,000 gallons, as calculated in Appendix A and the rates as set forth in Appendix B to this Order are fair, just and reasonable and should be approved for water service rendered by Harrison County Water


¹¹ Kentucky-American's tariff filings indicate the amounts charged by Kentucky-American have increased due to the Kentucky River Authority fee passed through Kentucky-American's rates and Kentucky-American's Qualified Infrastructure Program Rider, but Harrison County Water has not proposed to pass those increases through a purchased water adjustment at this time.

on and after December 12, 2022, because the rates are supported by evidence of the increase in rates from Harrison County Water's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.012.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$0.51 per 1,000 gallons is approved.
2. The rates proposed by Harrison County Water are denied.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Harrison County Water on and after December 12, 2022.
4. Within 20 days of the date of service of this Order, Harrison County Water shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.
5. Within six months of the date of this Order, Harrison County Water shall file an application for a general rate adjustment pursuant to 807 KAR 5:001, Section 16, or an application for an alternative rate adjustment pursuant to 807 KAR 5:076, or in the alternative, a formal motion with a detailed analysis of its rates and revenues explaining the reasons why no modifications are necessary. Any filing for a rate adjustment filed under KRS 278.023 or purchased water adjustments under KRS 278.012 does not relieve Harrison County Water from this requirement.
6. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION



Chairman

Vice Chairman



Commissioner

ENTERED
NOV 22 2022 bsb
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00354 DATED NOV 22 2022

	Base Rate	New Rate	Change
<u>Cynthiana</u>			
Purchases in Gallons	391,207,140	391,207,140	
Wholesale rate	<u>\$3.15/1,000</u>	<u>\$3.61/1,000</u>	
Sub-total	\$ 1,232,302.49	\$ 1,412,257.78	\$ 179,955.29
Total Gallons Purchased	461,797,344		
Total Cost of Water from All Suppliers	\$ 1,480,186.93	\$ 1,660,142.22	\$ 179,955.29
Increased water cost		\$179,955.29	
Divided by Gallon sold/1,000		<u>356,135,832</u>	
Purchased water adjustment factor		\$ 0.50530 per 1,000 gallons	

or \$ 0.51 per 1,000 gallons

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00354 DATED NOV 22 2022

5/8 X 3/4-Inch Meter

First	2,000 Gallons	\$20.53	Minimum Bill
Next	1,000 Gallons	0.00795	Per Gallon
Next	2,000 Gallons	0.00777	Per Gallon
Next	45,000 Gallons	0.00723	Per Gallon
Over	50,000 Gallons	0.00631	Per Gallon

3/4-Inch Meter

First	3,000 Gallons	\$28.48	Minimum Bill
Next	2,000 Gallons	0.00777	Per Gallon
Next	45,000 Gallons	0.00723	Per Gallon
Over	50,000 Gallons	0.00631	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$44.02	Minimum Bill
Next	45,000 Gallons	0.00723	Per Gallon
Over	50,000 Gallons	0.00631	Per Gallon

1 1/2-Inch Meter

First	10,000 Gallons	\$80.16	Minimum Bill
Next	40,000 Gallons	0.00723	Per Gallon
Over	50,000 Gallons	0.00631	Per Gallon

2-Inch Meter

First	15,000 Gallons	\$116.29	Minimum Bill
Next	35,000 Gallons	0.00723	Per Gallon
Over	50,000 Gallons	0.00631	Per Gallon

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